

A Glimmer of Market Change in Egypt?

By Ali Abdi and Manal El Masry

The Egyptian government has taken two steps recently toward market liberalization—allowing the Egyptian pound to float and centralizing the process of inspecting and certifying imported goods.

In the long term, the floating exchange rate is expected to enhance confidence in the Egyptian economy and make Egyptian exports more competitive.

In the short term, however, extreme fluctuations in the exchange rate have bumped up the price of imports and led to tightened foreign exchange availability that limits credit at banks. As a result, some Egyptian importers have decided to wait out the fluctuations and curtail foreign purchases.

Watch Local Politics, Sentiment

U.S. export sales to Egypt reflect the changing market and political conditions. In calendar 2002, U.S. agricultural exports to Egypt totaled \$860 million, down 16 percent from the year before, but still a 34-percent market share.

Seven EU (European Union) countries and the United States are dominant suppliers of consumer-ready products to Egypt. EU exports rose from \$595 million in 2001 to \$646 million in 2002, due partly to the fact that EU countries' proximity to Egypt gives them freight advantages over more distant competitors. Exports of U.S. consumer-oriented goods fell from \$50.5 to \$47 million over the period.

The U.S. decrease is attributed to local



attitudes regarding the current political situation in the Middle East and the devaluation of the Egyptian pound. Although U.S. products will continue to

face many challenges and intensifying competition, importers are hoping that demand for U.S. products will improve as the Egyptian pound stabilizes and political

tensions subside, and as Egypt's trend toward larger retail stores increases demand for convenience items.

Higher Incomes, More Convenience

Two market trends—the coming of the supermarket and hypermarket to urban areas and the expansion of fast-food chains—are changing the shopping habits and affecting the food preferences of Egypt's 68 million residents.

In the past, most Egyptian consumers bought meats and fresh fruits and vegetables from small neighborhood shops, and many still do. But urban Egyptian consumers are becoming aware of the quality and variety of consumer-oriented products, thanks to the large retail stores springing up in Cairo and Alexandria. Middle- and high-income consumers are finding the convenience, services and large food selections in these outlets to be irresistible.

Barriers Still Raise Bar for Entry

There are trade barriers in place that can bring product entry problems, such as abrupt rule changes, non-transparent regulations and stringent product labeling requirements.

Tariffs, too, can vary. Despite its World Trade Organization obligation to base tariffs on the declared value of imported products, Egypt frequently applies reference prices. Poultry and sugar import valuations are often set by arbitrary reference prices rather than declared value. Also, certain items, like poultry products and alcohol, can face extremely high tariffs.

Soon U.S. suppliers will face increased competition in Egypt from the EU as a trade partnership agreement signed in June 2001 takes effect. The agreement will substantially cut or eliminate tariffs on

Getting Ready for the Market

- Work with importers to ensure Egyptian import requirements are met.
- Visit Egypt when political environment improves to understand market and develop relationships with potential clients.
- Promote products through local agent or distributor—free samples, advertising, in-store displays and price discounts.
- Advertise in monthly magazines targeted to a specific audience.
- Participate in a promotional event organized or sponsored by the FAS office in Cairo.
- Accept small orders at first—share a shipment with other suppliers.

most agricultural products over the next 12 to 15 years.

Food Standards Strict

The Egyptian Organization for Standardization and Quality Control in the Ministry of Industry has sole responsibility for food standards and codes of practice and enforcement. It is stricter in enforcing product standards on imported foods than on locally produced goods.

The GOEIC (General Organization for Export and Import Control, Ministry of Foreign Trade) clears imports through customs. The GOEIC issues all release certificates in coordination with other government agencies.

Production and expiration dates are mandatory, as are Arabic labels (though these can be stickers). Packaging should contain the following information:

- Name of producer and trademark, if any
- Country of origin
- Type of product and grade

- Name and address of importer
- Production and expiration dates
- Product use instructions (optional)
- Product ingredients
- Storage instructions or recommended temperature
- Net weight
- Gross weight and total number of packages per case or carton
- Percent of preservative, if applicable
- If meat, "slaughtered according to the Islamic ritual" or "*halal* slaughtered"

Retail Food Sector Is Healthy

Local supermarket chains and multinational firms investing in Egypt are providing greater access and choices for consumers.

While three supermarket chains import directly, products usually enter the country via an importer or agent who may also be a wholesaler and/or distributor. While consumer-ready food sales are now concentrated in Cairo (with 16 million residents) and Alexandria (5 million), the next wave of expansion is expected to occur in the Red Sea region.

Dining Out Becoming Popular

It is not just time-pressed working women and dual-income families who have pumped up demand for dining out. The Egyptian government and the tourism industry are also doing their share of promoting Egypt as a top tourist destination, encouraging the expansion of hotels, resorts—and restaurants, of course—not only in Cairo and Alexandria, but along the Red Sea coast and Sinai peninsula.

With 30 franchises represented, U.S. food chains, ranging from fast-food to family-style formats, dominate the restaurant scene.



32039

Currently imports from Europe, New Zealand and Canada account for 91 percent of all hotel food purchases, compared to 9 percent from the United States. But sector growth will be providing many opportunities for new-to-market products and expansion of traditional best sellers.

In evaluating product acceptability, it is important to remember that hotel buyers are very price sensitive. Best sellers for

hotels include high-quality beef and beef liver, seafood, sauces, canned vegetables and fruits and Tex-Mex products. Beef imports are expected to increase dramatically if government import requirements are simplified and the 7-percent fat content limit is removed.

Food Processing Sector Booming

Most Egyptian food processors

U.S. Best Sellers

- Dressings, sauces and seasonings
- Spices
- Apples
- Nuts and dried fruits
- Tex-Mex items
- Cheeses
- Specialty flours
- Seafood (lobsters and soft crabs)
- Chocolate for confectionery items

depend on local inputs rather than imports. Foods produced by Egyptian companies for domestic and export markets are mainly dairy items, confectionery products, fruits, vegetables and beverages.

Imports used in production include sugar, cocoa, beans, oils, fats, coconut milk, nuts, dried fruits, coffee, tea, inputs for soft drinks and alcoholic products such as beer, wines, brandy, rum and ouzo.

Other Arab countries, particularly the Persian Gulf states, are traditional export markets for Egypt's canned and frozen food products. EU countries and, to a lesser extent, the U.S. and Asian markets, are also potential customers for Egyptian processed food products. ■

Ali Abdi is an agricultural attaché and Mana El Masry is an agricultural marketing specialist with the FAS office at the U.S. Embassy in Cairo, Egypt. Tel.: (011-20-2) 797-2388; Fax: (011-20-2) 796-3989; E-mail: agcairo@fas.usda.gov

For details, see FAS Report EG3010. To find it on the Web, start at www.fas.usda.gov, select **Attaché Reports** and follow the prompts.

